

would then be authorized to present a written request to the network service provider.⁴⁰ The administrator should also ensure that the total amount required to fund the discounts for network services in all of the plans approved within the state is no greater than the "fair share" amount assigned to that state.⁴¹

3. A central administrative approach could also be useful in providing discounted telecommunications services to rural health care entities.

It could also be useful for each state to appoint an administrative agency to assist rural health care entities in obtaining service under the provisions of §254(h)(1)(A). This agency would determine if a requesting entity were eligible under the '96 Act and review requests for discounted network services to ensure they were *bona fide*, using criteria similar to those discussed *supra*. *NPRM* at ¶¶84-85, 103.

Compensation for price reductions provided to rural health care entities requires a comparison of the difference between an urban price and a price for similar services offered to rural non-health care providers. *NPRM* at ¶99. The respective regulatory agencies should establish a "range of reasonableness" applicable to all carriers that seek universal service funding for services provided to rural health care entities so as to limit the variance between urban and rural prices.⁴² *NPRM* at ¶100. Adherence to such a price range should be required for Federal funding eligibility. *NPRM* at ¶99. Moreover, if no such rural services are currently offered, the involved regulatory agency should solicit competitive bids for use in establishing a comparison point for support calculation.⁴³

⁴⁰ Such written request should clearly state the needed network services, including the desired installation dates, quantities of services by bandwidth, signaling protocols, interface requirements, points of origination and termination, relevant traffic load information, and other information needed to ensure the request can be fulfilled efficiently and expediently.

⁴¹ §254(h)(1)(B) provides that discount levels will be established by the FCC for interstate services and by the states for intrastate services.

⁴² GTE suggests that rural rates should be compared to a state-wide average of rates for a given service.

⁴³ Conducting a regulatory proceeding to determine appropriate price points would not be competitively neutral because tariff forbearance, as required by §401 of the '96 Act, would result in only the incumbent LEC being forced to expend the resources to participate in such a proceeding. Such a result would be neither competitively neutral, nor comport with the '96 Act's requirement that subsidies be explicit. *NPRM* at ¶101; §254(e).

IV. THE LIFELINE ASSISTANCE PLAN AND LINK UP AMERICA PROGRAM SHOULD BE GENERALIZED TO ENSURE THAT THEY WILL BE COMPETITIVELY NEUTRAL.

GTE addressed the issues discussed in the *NPRM* (at ¶¶50-58) relating to low-income subscribers in a recent FCC proceeding.⁴⁴ The record in the *D.95-115* proceeding clearly shows that incumbent LECs offer many services useful to low-income individuals, and that incumbent LECs strike a reasonable balance between subscribership goals and prudent business practices.

GTE supports continuation of Federal programs for installation assistance and service price reductions for qualifying low-income individuals.⁴⁵ *NPRM* at ¶59. Both assistance programs must break the existing linkage with FCC accounting, separations and access charge rules. This is necessary to be competitively neutral so that support may be available to *Elte/s* that are not required to use the FCC's accounting, separations or access charge rules.⁴⁶ Specifically, each Lifeline customer should receive a credit to offset the charges the customer selects.⁴⁷ This program should not be tied to the interstate EUCL as it is today because only incumbent LECs assess such a charge. Moreover, both programs should be revised to become explicitly funded in the same manner as the new universal service fund.

Toll limiting service should not be a mandatory component of service for low-income customers because not all such customers want or need toll limitations.⁴⁸ *NPRM* at ¶54. Further, the record in *D.95-115* clearly demonstrates that toll limiting services cannot restrict interstate calls alone, that total toll blocking service is not completely effective, and that exchange carriers actively seek to help customers

⁴⁴ See Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network, CC Docket No. 95-115 ("D.95-115"), 10 FCC Rcd 13003 (1994); GTE's *D.95-115* Comments filed September 27, 1995, and Reply Comments filed November 20, 1995.

⁴⁵ Any individual seeking such reduced rates should be required to meet income level criteria established by a state regulatory agency, and to provide proof of such eligibility. Self certification should not be adopted due to the possibility for misuse of support funding. See GTE's *D.95-115* Comments at 46, and Attachment D.

⁴⁶ The "core" service provided by any *Elte/s* should be eligible for the Lifeline credit regardless of whether the *Elte/s* has undertaken COLR obligations.

⁴⁷ GTE suggests that the amount of the credit should be at least equal to the EUCL, and that it be linked to an inflation index so the passage of time does not dilute the effectiveness of the program. *NPRM* at ¶65

with a billing arrearage to retain service.⁴⁹ Should the FCC ignore these facts and require such services to be offered to low-income individuals, the *E/te/* should be reimbursed from the universal service fund for the difference between the normal tariff price authorized by the state regulatory agency and the FCC's required rate (whether free or discounted). Any less compensation would violate the requirement of §254(e) that any universal service support be "explicit and sufficient."

With respect to deposit amounts (*NPRM* at ¶56), GTE's business practices strike a prudent balance between maximizing subscribership and minimizing uncollectible revenues that burden all subscribers through increased prices. As such, GTE sets deposit amounts at a level that reflects the credit history of the individual requesting service and the maximum amount of monthly charges that the customer can afford.⁵⁰ Any FCC mandate that replaces the *E/te/*'s judgment must include a provision for recovery from the universal service fund the difference between the mandatory deposit amount and the amount the *E/te/* would have selected. Failure to link such compensation to a reduced deposit requirement would, once again, violate the requirement of §254(e) that any universal service support be "explicit and sufficient."

The *NPRM* (at ¶53) asks whether free access to information regarding telephone service activation and termination, repairs, and telephone subsidy programs should be included within the group of services receiving universal service support. FCC action on this item is unnecessary and would be contrary to the deregulatory intent of the '96 Act. The means of obtaining information about the availability or status of a state-tariffed service is squarely within the province of the state regulatory agencies. Further, in a

⁴⁸ See GTE's *D.95-115* Comments at 27-29.

⁴⁹ See GTE's *D.95-115* Comments at 18-27, Reply Comments at 17-19.

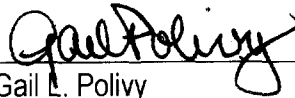
⁵⁰ See GTE's *D.95-115* Comments at 15.

competitive environment, each local exchange service provider has the incentive to be easy to reach and responsive both to current and potential customers.⁵¹

Respectfully submitted,

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⁵¹ Access to GTE customer contact personnel is available only through 800 calling. This provides free access to information concerning: (i) service availability and price; (ii) subsidy programs; (iii) account status; (iv) billing problems; and (v) repair reporting and status. GTE's interactive response system provides much of this information without the need to speak with a GTE employee. *See NPRM* at ¶53.

APPENDIX A

A COMPARISON OF THE
TELECOMMUNICATIONS ACT OF 1996
TO
GTE's CC DOCKET NO. 80-286
UNIVERSAL SERVICE PROPOSALS

Telecommunications Act of 1996	GTE CC Docket No. 80-286 Proposal
<p>Universal service must be available at rates that are just, reasonable, and affordable.</p> <p>§254(i)</p>	<p>The "affordable" rate level for the supported service will necessarily be a policy judgment made by the Joint Board and the Commission, a judgment that will take into account ratemaking decisions by state regulatory agencies. This affordable level, which GTE has called a "<i>Reference Rate</i>," could be uniform nationwide, or could vary systematically from place to place as a function of income or some other factor.</p> <p>(GTE 80-286 NPRM Comments at 11-13)</p>
<p>The definition of the services that are supported shall consider the extent to which such services are essential, have been subscribed to by a substantial majority of residential customers, and are being deployed in public networks.</p> <p>§254(c)(1)</p>	<p>Universal service should be defined as the basic local service that is currently available to the vast majority of Americans. It should include certain minimum targeted levels for availability of a voice grade network connection and equal access to IXC services. Access to emergency services (<i>e.g.</i>, E911), availability of touch tone, and a directory listing should also be included. This basic package should include access but not usage. The definition should not be technology-specific.</p> <p>(GTE 80-286 NOI Comments at 22-24)</p>
<p>The definition of the supported services may be altered periodically.</p> <p>§254(c)(2)</p>	<p>A process must be established for periodic review of the service package. New functionality should be added only if: (i) it has achieved market acceptance in areas where market forces have been able to function effectively; and (ii) there is governmental interest in ensuring the widest availability and use of that feature.</p> <p>(GTE 80-286 NOI Comments at 22-24)</p>
<p>State regulatory agency may add functionality to the federal definition, but must adopt sufficient additional funding.</p> <p>§254(f)</p>	<p>State regulators would be free to supplement the national service definition through the creation of state-specific mechanisms to fund the availability of additional features.</p> <p>(GTE 80-286 NOI Comments at n.42)</p>
<p>Supported service should be available at just, reasonable, and affordable rate.</p> <p>§254(b)(1)</p>	<p>FCC and Joint Board must decide what rate level (for universal service) is to be considered affordable.</p> <p>(GTE 80-286 NPRM Comments at 11-13)</p>
<p>Support used to make up difference between cost and affordable rate.</p> <p>§254(e)</p>	<p>National universal service policy, together with corresponding state plans, should be to compensate COLRs to the full extent that the COLR obligation represents a market intervention, i.e., the difference between the result a competitive equilibrium would produce and the requirements placed on the COLR.</p> <p>(GTE 80-286 NPRM Comments at 14)</p>

Telecommunications Act of 1996	GTE CC Docket No. 80-286 Proposal
Support shall be explicit and sufficient. §254(e)	The amount of support provided should be sized as accurately as possible to correspond to what is actually needed to compensate for the COLR obligation. (GTE 80-286 NPRM Comments at 21)
Support must be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended. §254(e)	National universal service policy, together with corresponding state plans, should be to compensate COLRs to the full extent that the COLR obligation represents a market intervention, i.e., the difference between the result a competitive equilibrium would produce and the requirements placed on the COLR. (GTE 80-286 NPRM Comments at 14) Each customer that wished to purchase the basic package could select a COLR; each COLR would report to the fund administrator the number of customers it served, and would receive the per-customer support amount. (GTE 80-286 NPRM Comments at 76)
Multiple eligible carriers may exist within a service area. §102(e)(2)	Any new plan should make provision for firms other than the exchange carrier to undertake COLR responsibility, and to receive COLR support. (GTE 80-286 NPRM Comments at 75)
Eligible carrier may cease serving a geographic area and relinquish eligibility for support. §102(e)(4)	A carrier that "opts-out" would not bear any of the responsibilities of a COLR, nor would it be eligible for COLR funding. (GTE 80-286 NOI Reply Comments at 34-36)
An eligible carrier must provide the defined universal service and advertise throughout a service area of undefined size. §102(e)(5)	A small geographic area (such as a Census Block Group) should be used as basis of cost determination and service commitment. (GTE 80-286 NPRM Comments at 31-32)
Price for services other than basic residential may be supported for some entities (e.g., schools). §254(h)	State regulators would be free to supplement the national service definition through the creation of state-specific mechanisms to fund the availability of additional features. (GTE 80-286 NOI Comments at n.42)
New entrants may use resold LEC service to provide local service. §251(c)(4)	A COLR should be able to fulfill its obligation to provide service by obtaining services from other carriers and reselling them. (GTE 80-286 NOI Reply Comments at 41-42)

Telecommunications Act of 1996	GTE CC Docket No. 80-286 Proposal
<p>All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.</p> <p>§254(b)(4)</p>	<p>A fund used to provide monies for explicit universal service support should have the broadest possible base of contributors. A broad, general revenue tax would be the least distorting source for funding. The next best solution would be a telecommunications surcharge. The surcharge contribution mechanism must be competitively neutral. All participants in the market for any telecommunications service must be contributors. Further, the surcharge should be based on relatively simple and verifiable data. The use of total revenues from retail transactions would meet both these criteria. Using this method, each telecommunications service provider would apply a surcharge of a given percentage to all retail sales of telecommunications services to end user customers. The limitation of the surcharge to retail revenues is important in order to avoid double counting of services at the wholesale level.</p> <p>(GTE 80-286 NOI Comments at 24-25)</p>
<p>Only eligible telecommunications carriers shall be eligible to receive specific Federal universal service support.</p> <p>§254(e)</p>	<p>Linking a COLR obligation to the availability of high-cost support is essential for the efficient use of funding. This is so because, even within a small geographic area, customers are heterogeneous with respect to cost, as well as other characteristics, which might affect their attractiveness to a carrier. The plan will provide an average amount of support, on a per-customer basis, for each customer served within a given area. It is far more efficient to couple the average payment with an obligation to serve all customers on request. The COLR must take the bad with the good. It will receive more support than it needs for the most attractive customer in the area, but less than it needs for the least attractive.</p> <p>(GTE 80-286 NPRM Comments at 27-29)</p>
<p>Eligible carriers must offer the supported service throughout the service area for which the designation is received and advertise the availability of such services.</p> <p>§102(e)(1)</p>	<p>The plan should ensure that a clear list of COLR obligations is established, and applied symmetrically to all COLRs in an area, including the LEC. It should also include the maximum price the COLR is permitted to charge, and any other requirements found necessary, such as tariffing requirements, quality standards, interconnection and resale requirements.</p> <p>(GTE 80-286 NPRM Comments at 30-31)</p>

APPENDIX B

A Comparison of Estimated Loop Costs

Per Household

with

Estimated Retail Telecommunications Revenues

Per Household

The attached pages provide a state-by-state comparison of an estimate of the average loop costs per household (as determined by the Benchmark Cost Model) with an estimate of the average net, or retail telecommunications expenditures per household.

The purpose of this comparison is to demonstrate that many states have both higher than average loop costs and a relatively low total telecommunications revenue amount to which a universal service surcharge could be applied.

Data Sources:

The average household loop cost information was taken from the Benchmark Cost Model results dated December 1, 1995, and includes overhead loadings. The household loop cost was been augmented with an estimate of some additional costs needed to provide a "core" residential service.

These costs were developed by GTE for use in a Pennsylvania Public Utility Commission proceeding and represent the average costs for: (i) the central office Main Distributing Frame ("MDF") and switch line card; (ii) the service drop and protector; (iii) all aspects of Directory assistance and listing services; and (iv) billing and collection costs.¹

As for retail telecommunications revenues, there was no direct source available for data for the total end-user telecommunications revenues in each state. Therefore, a surrogate was developed for illustrative purposes.

To develop this surrogate, the total nationwide telecommunications revenue amounts as reported for purposes of calculating Telecommunications Relay Service ("TRS") assessments were used. The total revenue figure used in TRS computations was reduced by the amount of access charge revenues to obtain

¹ *Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for the Telecommunications Services in the Commonwealth*, Docket No. I-00940035, Testimony of Lawrence P. Cole Before the Pennsylvania Public Utilities Commission, December 8, 1995, at Attachment LPC-6.

a retail-only telecommunications revenue amount.² This net amount was then distributed to each state based upon allocation factors developed by GTE.

Revenue allocation factors were developed by using business and consumer telecommunications expenditure information obtained from independent vendors that conduct primary research. The business expenditure data were apportioned among states through use of a commercial database that contains information related to the number and type of businesses, size and characteristics of firms, industry segment, geography parent/subsidiary structures and their related voice and data needs. The consumer expenditures were apportioned among the states through use of a different commercial database that contains the number and characteristics of households such as geography and/or demographics. The sum of both business and consumer expenditures for each state were expressed as a percent of the total for the United States.

The retail total telecommunications revenue per state was then calculated by multiplying the percent of total for each state times the nationwide amount. This result was then divided by the number of households per state used in the Benchmark Cost Model project to produce a per-household retail telecommunications revenue.

² *Telecommunications Industry Reports \$183.9 Billion in Revenue for 1994*, FCC News, February 5, 1996, and associated report *Telecommunications Industry Revenue: TRS Fund Worksheet Data*, February 1996, Industry Analysis Division, Common Carrier Bureau, at Table 2.

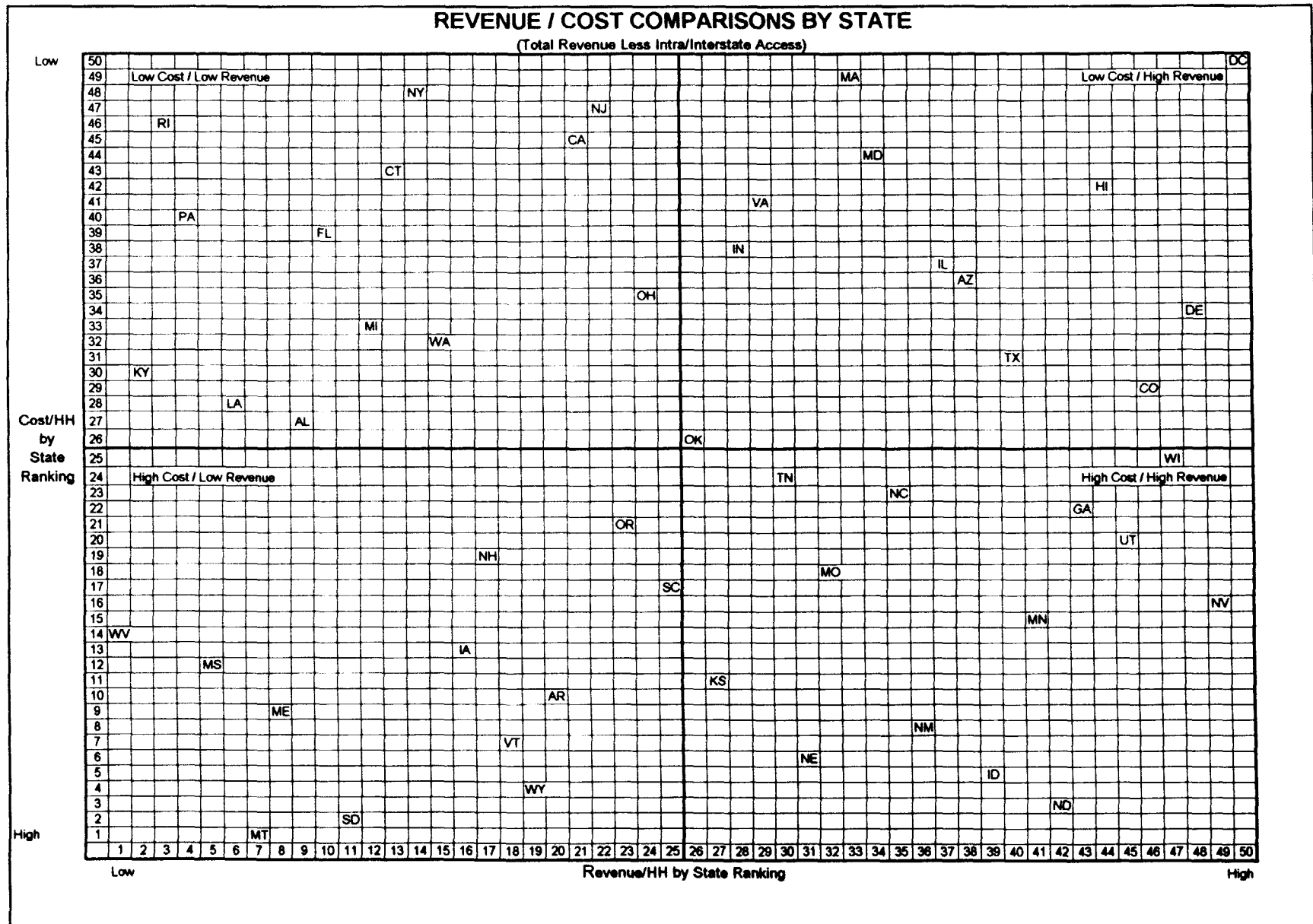
Results:

Schedule 1 shows in matrix format that twelve states have both above average loop cost per household and below average retail telecommunications revenue per household to which a universal service surcharge could be applied. The lower left-hand quadrant represents those states.

Schedule 2 displays the data used to produce Schedule 1 arranged in a low-to-high order for estimated retail revenues per household and a high-to-low order for estimated average loop cost per household.

Schedule 3 displays the same data as Schedule 2, but arranged in alphabetical order.

SCHEDULE 1



SCHEDULE 2

ESTIMATED TELECOMMUNICATIONS REVENUE/HH BY STATE Less Intra/Interstate Access (Ranked Low to High)			WEIGHTED AVERAGE MONTHLY COST BY STATE (Ranked High to Low)	
State	Distribution of Total Telecommunications Revenue by State	"Net" Telecommunications Revenue Per Household	State	ARMIS Costs Per Household
WV	0.558%	1,209	MT	\$ 64.50
KY	1.376%	1,488	SD	60.94
RI	0.380%	1,505	ND	60.52
PA	4.596%	1,527	WY	58.06
MS	0.936%	1,535	ID	50.86
LA	1.545%	1,539	NE	46.45
MT	0.318%	1,546	VT	45.94
ME	0.483%	1,549	NM	44.59
AL	1.565%	1,551	ME	44.16
FL	5.361%	1,557	AR	43.48
SD	0.271%	1,557	KS	42.93
MI	3.578%	1,559	MS	41.96
CT	1.289%	1,564	IA	41.50
NY	6.958%	1,565	WV	41.36
WA	1.963%	1,565	MN	39.38
IA	1.132%	1,587	NV	39.09
NH	0.437%	1,587	SC	38.47
VT	0.224%	1,587	MO	38.35
WY	0.180%	1,589	NH	38.23
AR	0.950%	1,590	UT	37.93
CA	11.124%	1,596	OR	37.91
NJ	2.993%	1,598	GA	37.41
OR	1.189%	1,605	NC	37.24
OH	4.410%	1,609	TN	37.19
SC	1.359%	1,611	WI	37.10
OK	1.307%	1,615	OK	36.51
KS	1.024%	1,618	AL	36.38
IN	2.240%	1,619	LA	36.37
VA	2.494%	1,622	CO	35.72
TN	2.020%	1,626	KY	35.37
NE	0.657%	1,627	TX	35.06
MO	2.144%	1,631	WA	33.40
MA	2.461%	1,636	MI	32.87
MD	1.921%	1,639	DE	31.85
NC	2.774%	1,645	OH	31.32
NM	0.599%	1,645	AZ	31.18
IL	4.642%	1,650	IL	30.65
AZ	1.549%	1,684	IN	30.50
ID	0.417%	1,722	FL	30.32
TX	7.027%	1,725	PA	30.16
MN	1.918%	1,736	VA	29.77
ND	0.282%	1,742	HI	29.06
GA	2.765%	1,744	CT	28.72
HI	0.417%	1,745	MD	28.48
UT	0.642%	1,783	CA	27.97
CO	1.542%	1,791	RI	27.59
WI	2.229%	1,824	NJ	26.78
DE	0.318%	1,917	NY	26.50
NV	0.637%	2,034	MA	23.04
DC	0.569%	3,409	DC	21.11
AK	0.227%	N/A	AK	N/A
Total	100.000%	\$ 1,622	National Avg.	32.96

SCHEDULE 3

ESTIMATED TELECOMMUNICATIONS REVENUE/HH BY STATE Less Intra/Interstate Access (Listed Alphabetically with Low to High Rankings)				WEIGHTED AVERAGE MONTHLY COST BY STATE (Alphabetically with High to Low Rankings)		
Rank	State	Distribution of Total Telecommunications Revenue by State	"Net" Telecommunications Revenue Per Household	State	ARMIS Costs Per Household	Rank
51	AK	0.227%	N/A	AK	N/A	51
9	AL	1.565%	\$ 1,550.88	AL	\$ 36.38	27
20	AR	0.950%	1,589.71	AR	43.48	10
38	AZ	1.549%	1,684.48	AZ	31.18	36
21	CA	11.124%	1,596.37	CA	27.97	45
46	CO	1.542%	1,790.66	CO	35.72	29
13	CT	1.289%	1,564.06	CT	28.72	43
50	DC	0.569%	3,408.73	DC	21.11	50
48	DE	0.318%	1,917.09	DE	31.85	34
10	FL	5.361%	1,558.89	FL	30.32	39
43	GA	2.765%	1,743.83	GA	37.41	22
44	HI	0.417%	1,744.95	HI	29.06	42
16	IA	1.132%	1,586.50	IA	41.50	13
39	ID	0.417%	1,721.70	ID	50.86	5
37	IL	4.642%	1,650.24	IL	30.65	37
28	IN	2.240%	1,619.12	IN	30.50	38
27	KS	1.024%	1,618.21	KS	42.93	11
2	KY	1.376%	1,488.48	KY	35.37	30
6	LA	1.545%	1,539.07	LA	36.37	28
33	MA	2.461%	1,636.28	MA	23.04	49
34	MD	1.921%	1,638.69	MD	28.48	44
8	ME	0.483%	1,548.57	ME	44.16	9
12	MI	3.578%	1,559.34	MI	32.87	33
41	MN	1.918%	1,736.34	MN	39.38	15
32	MO	2.144%	1,631.34	MO	38.35	18
5	MS	0.936%	1,534.55	MS	41.96	12
7	MT	0.318%	1,545.52	MT	64.50	1
35	NC	2.774%	1,644.80	NC	37.24	23
42	ND	0.282%	1,741.94	ND	60.52	3
31	NE	0.657%	1,626.59	NE	46.45	6
17	NH	0.437%	1,586.55	NH	38.23	19
22	NJ	2.993%	1,598.32	NJ	26.78	47
36	NM	0.599%	1,644.86	NM	44.59	8
49	NV	0.637%	2,034.15	NV	39.09	16
14	NY	6.958%	1,565.15	NY	26.50	48
24	OH	4.410%	1,609.35	OH	31.32	35
26	OK	1.307%	1,615.10	OK	36.51	26
23	OR	1.189%	1,605.48	OR	37.91	21
4	PA	4.596%	1,526.69	PA	30.16	40
3	RI	0.380%	1,505.44	RI	27.59	46
25	SC	1.359%	1,611.11	SC	38.47	17
11	SD	0.271%	1,557.17	SD	60.94	2
30	TN	2.020%	1,626.15	TN	37.19	24
40	TX	7.027%	1,724.92	TX	35.06	31
45	UT	0.642%	1,783.23	UT	37.93	20
29	VA	2.494%	1,622.42	VA	29.77	41
18	VT	0.224%	1,586.95	VT	45.94	7
15	WA	1.963%	1,565.22	WA	33.40	32
47	WI	2.229%	1,823.59	WI	37.10	25
1	WV	0.558%	1,208.61	WV	41.36	14
19	WY	0.180%	1,589.46	WY	58.06	4
Total		100.000%	1,621.99	National Avg.	\$ 32.96	

The referenced Schedules 1, 2 and 3,
consisting of tables of data and graphs,
are not available in electronic format.

APPENDIX C

GTE's Proposal

for

A Universal Service Support

Competitive Bidding

Process

As Described in

GTE's D.80-286 Comments

Filed October 25, 1995

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)	
)	
Amendment of Part 36 of the)	CC Docket No. 80-286
Commission's Rules and)	
Establishment of a Joint Board)	

GTE's COMMENTS

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B. A CAREFULLY DESIGNED BIDDING PROCESS WILL BE EFFICIENT TO ADMINISTER, AND WILL PROVIDE INCENTIVES FOR PARTIES TO BID.

1. GTE outlines a proposed structure for the auction process.

The bidding process GTE recommends would satisfy the following objectives.

First: It would be simple enough to be administered at reasonable cost.

Second: It would accommodate the development of competition at different rates in different areas. In effect, the new entrants into local markets would decide which areas would be put up for bid in each period.

Third: The process would provide incentives for each prospective COLR to submit bids that effectively reveal the valuation it places on the COLR obligation in a given area.

GTE proposes that the administrator of the COLR bidding process should establish a regular schedule under which auctions would take place. This could be set to occur once or twice each year. The administrator could be a state regulatory agency, or a third party appointed by the FCC. A schedule of fees could be established whereby the participants in the auction would pay the costs associated with the third party administrator. GTE will refer here to the set of steps required to auction a group of areas at a given time as a "bidding cycle."

In Step 1 of a given bidding cycle, the state regulatory agency would post, by a predetermined date, the list of COLR obligations that would apply to any areas auctioned in that cycle. This would include the definition of universal service that

COLRs would be expected to provide.⁹⁸ It would also include the price ceiling that would apply to COLRs in each area. This ceiling need not be the same in all areas. Similarly, the state regulatory agency could adopt a transition, such as a rate rebalancing plan, that would allow rates to change during the COLR commitment period. The bidding process would accommodate this as long as the transition is announced in advance, so that bidders are aware of it.

The period for which COLRs would commit to the obligation would also be specified – for example, five years. The list would include any other requirements to be imposed on all COLRs. As part of Step 1, it may also be useful to require the incumbent LEC to post initial bids for each area. These would provide information to prospective entrants, and would serve as starting points for the auction.

If the state agency wished to reduce the number of small areas (such as CBGs) available for bid in a given bidding cycle, it could divide the state into several regions of manageable size and allow auctions only for CBGs in one region within a given bidding cycle. It could also group similar CBGs into larger areas, as long as these areas are still homogeneous with respect to cost, and compact enough to represent a reasonable serving area.⁹⁹ However, regardless of whether or not the state agency groups CBGs

⁹⁸ The definition, of course, will have been established at the outset of the plan. However, the definition may change as a result of a periodic review. This change should be reflected in all auctions that commence after the change is adopted.

⁹⁹ The evidence available to GTE to date suggests that a wire center would not be an appropriate grouping, because the costs vary too widely across CBGs within a wire center. See, *NPRM* at n.75. Further analysis of proxy estimates, as they become available, will be needed to determine a reasonable basis for grouping CBGs. Note that if CBGs are grouped into areas that are too large, there is a danger that a barrier to entry will be created by requiring a new COLR to serve the entire area.

itself, the process described here would allow each interested and qualified firm to designate those CBGs on which it is interested in bidding, thus creating its own groupings.

In Step 2, potential bidders would submit by a predetermined date a Notice Of Intent to Bid on specified geographic area(s) in the upcoming bidding cycle. This process would allow entrants to nominate for bidding any areas in which they are interested. By doing so, carriers would be allowed to choose CBGs that correspond to their marketing/business strategy, and to take account of any synergies they may perceive in serving adjoining CBGs.¹⁰⁰ The Notices of Intent would be posted for all parties to examine.

The submission of Notices of Intent to Bid in Step 2 would also initiate any qualification process the state regulatory agency may wish to conduct to ensure that bidders meet fitness standards for COLRs. At this stage, prospective bidders would also be required to post any deposits found necessary.

In Step 3, potential bidders could nominate additional areas adjacent to those posted in Step 2. This would again be done by a pre-announced date.

In Step 4, bidders that had submitted Notices of Intent to Bid would file applications to bid, together with deposits needed to establish eligibility for the first round of bidding.

¹⁰⁰ Note that potential synergies may be different for different carriers, depending on the carrier's business plan, choice of technology, and the characteristics of its existing network. A cable provider, a power company, and a cellular carrier, for example, may have different areas of coverage at the outset, given their embedded networks.

In Step 5, the auction would begin on a predetermined date. The FCC has developed substantial experience with bidding through its successful spectrum auctions, in which bids were posted electronically, via the Internet, several times each day. The format would be an iterated, sealed-bid, simultaneous auction.

2. The bidding process recommended by GTE would encourage active bidding and would provide a mechanism for minimizing total support over time.

Rules would be established that would require each bidder to remain active in each round in order to retain eligibility for the next round. Eligibility would be retained by having a low bid on a CBG carried over from a previous round, or through entering a new qualifying bid. A qualifying bid would be one that was better than the previous low bid by some predetermined increment. Bidding would continue in new rounds as long as the support amount bid continues to fall. The activity rules would force bidders to keep reducing their bids until a point is reached where no bidder is willing to undertake the COLR responsibility in an area for less than the previous best offer. No CBG would close until bidding for all markets closed.

Eligibility rules would provide bidders with some flexibility to shift bids from one market to another in successive rounds, subject to limits that would require the bidder to maintain eligibility in each round. This would allow a firm that abandons bidding for one group of CBGs in a given round to concentrate its efforts on bidding for a different such cluster in subsequent rounds. In the FCC's PCS auctions, a bidder maintained eligibility by bidding for areas with a certain number of "Points of Presence" or "POPs." The activity rules, combined with the number of rounds of bids taken each day, determines the pace of the auction, and can be designed to ensure that the auction is

completed in reasonable time, while providing adequate opportunity for parties to evaluate the information generated in each round of bidding.

In order to ensure an incentive to bid aggressively, a carrier could be required to have submitted a final bid within a predetermined range of the winning bid to retain eligibility to become a COLR. Any party that completed the auction outside this range would lose its ability to continue receiving COLR support. Each bidder would then know that it must advance its bid each round by an amount sufficient to avoid being left outside this range by the bids of other parties in that round. By the same token, an aggressive firm would have an incentive to attempt to exclude other firms through reducing its bid by more than the specified interval in a given round.

If the state regulatory agency wishes to further intensify the incentive for each firm to bid aggressively, it could announce a predetermined number of winners at the beginning of the auction. Each firm would then have to bid aggressively to ensure that it would finish the auction within the winning group. The support level could then be determined by the lowest bidder.¹⁰¹ The state agency could announce in advance a formula that would establish the number of winners, as a function of the number of firms submitting Notices of Intent to Bid for a given area. As described *supra*, a bidder's final bid would be required to fall within a predetermined range of the lowest bid to be included in the winning group.

This approach of predetermining the number of winners would promote aggressive bidding, but may result in the exclusion of some carriers, whose bids were

¹⁰¹ Alternatively, the support could be based on the second lowest bid, or on an average of the two. This is known as a second price auction.

within the predetermined range of the lowest bid, and who would wish to become COLRs. To accommodate such a possibility, a procedure could be established for a secondary auction. A bidder that had finished the first auction within the specified range could notify the state agency, within a pre-announced period after the close of the auction, that it desires to participate in a secondary auction.

Such an auction would begin at a level below the winning bid in the primary auction, and would follow rules similar to those described *supra* for the primary auction. Winners of the secondary auction would thus be allowed to become COLRs, but at a less favorable level of support than the winners of the primary auction. This would maintain incentives to be designated as a winner in the primary auction. The secondary auction would not affect the support determined for winners of the primary auction. In effect, the secondary auction would establish a "winner's preference" for the winners of the primary auction.¹⁰²

3. The bidding process recommended by GTE would establish a market mechanism for determining the level of COLR support.

GTE's recommended bidding process would draw on the FCC's successful experience with previous auctions, and could be administered at reasonable cost. This process allows flexibility for bidding to accommodate the entry strategies of new firms, while the number of separate auction processes the state agency must administer is limited by establishing a limited number of "bidding cycles" at predetermined dates during the year. This flexible bidding process would accommodate areas that are ready

¹⁰² Such a "bonus" is contemplated in the *Second D.80-286 USF NOI* (at para. 86). The secondary auction would provide a market mechanism for determining the magnitude of this preference.

APPENDIX D

An Excerpt from

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